1. A large telescope. We have already alluded to the deficiency of the present one.

2. Observing-rooms of wood or iron, instead of brick.

3. Such a personal organization as shall secure the services of able astronomers.

4. Residences for the principal observers at or near the Observatory. This we conceive to be, at present, one of the most urgent wants of the establishment.

The words of the Emperor Nicholas, when he first contemplated founding the Pulkowa Observatory, express the spirit which should animate the government of our own country in carrying out these improvements: "*Sa Majesté Impériale daigna declarer du Ministre de l'Instruction Publique, Prince Lieven que l'honneur du pays Lui paraissait reclamer la foundation près de la capitale, d'un nouvel Observatoire astronomique ; conformé à la hauteur actuelle de la science et propre à contribuer à son avancement ulterieur.*"

Art. III. — The Bank of England Restriction. 1797–1821.

During the eighteenth century the mechanism of trade had been elaborated in Great Britain to a high point of perfection. London had become in a great degree the centre of commerce for the whole world, while the Bank of England was the business centre of London. But the Bank had a double sphere of usefulness. As a private corporation, it exercised, not less by the high character of its directors than by the amount of its capital and the privileges of its charter, a great influence over all foreign and domestic trade. By common agreement, its notes circulated within London to the exclusion of all other bank-paper. Its discounts represented at that time a far greater proportion of the active capital of England than they now do. But its operations were not restricted within the limits of ordinary banking; it was also a recognized official agent. As a national establishment, it issued the coin, man-

aged the debt, took charge of government deposits, and made advances to the Exchequer and the Treasury, on security of Exchequer Bills. In the same capacity, it was expected to perform the difficult duty of maintaining a supply of gold, not merely for circulation, but in anticipation of any sudden drain or panic, which might cause a run upon the other banking institutions of the country. It was obliged, therefore, to purchase at a fixed rate all the gold which was brought to its counters. Thus, as a bank of discount, it held the exclusive privilege of discounting government paper; as a bank of deposit, it alone held the public balances; as a bank of issue, its circulation alone passed through the hands of the government as well as of the public. Its notes, when not issued in loans on Exchequer Bills to the government, or in payment for the precious metals as already mentioned, could only pass into circulation through the medium of discounts furnished to merchants. Neither then, nor at any time, has the Bank had other than these three means of issuing its paper; and as it is clear that, so far as the second is concerned, no notes could be sent out which did not represent their equivalent in coin or bullion brought in, the only possible mode of issuing an excess of paper must have been either by loans to the government on security of Exchequer Bills, or in regular and legitimate commercial discounts.

All foreign and most provincial payments were ultimately settled by drafts on London. But the country merchants and others, who had occasion in this manner to extend their connections beyond the limits of a district, usually found it convenient to deal through the local bankers of their neighborhood, rather than to draw upon correspondents of their own. In 1797, there were about three hundred and fifty such country banks in England and Wales, most, if not all, of which were banks of issue; and as they were always liable to be called upon to redeem their notes either in gold, in Bank of England notes, or in bills of exchange drawn on London, it is evident that their circulation was subject to all the variations of the London money-market.

Besides this practical check, yet another control was exercised by the Bank of England over the credit operations of

the country. Every private banker naturally felt that his own credit depended upon the solvency of his customers; and he was obliged, by the very nature of his business, to acquire the most accurate knowledge in his power of the people who dealt with him. In precisely the same way the London banker, his correspondent, looked carefully to the country client's credit, and to the character of the bills which he dealt in; while in his own city the London banker was subjected to the scrutiny of the business community of London, whose opinions, centring upon one point, guided the policy and the particular discounts and accommodations of the Bank of England. Thus again the Bank was at once the head and heart of English credit; it exercised a controlling influence even upon the remote provincial trader.

So far as the currency was concerned, the Bank could, by contracting its issues, affect in a short time the whole circulation of England; and naturally, when such a contraction had taken place, a renewed expansion on its part would be likely to result in a similar movement on the part of private bankers. But the antiquated and mischievous legislation of Parliament still maintained, and, in spite of the severest practical lessons, long continued to maintain, a legal maximum of interest at five per cent, even when the government itself was borrowing at six. At the present time the Bank regulates its discounts by raising or lowering its rate according to the value of money in the open market. But while the usury laws were in force, the Bank continued to lend its credit at five per cent, whether the market value was at two or at twenty; and it possessed no means of restricting its discounts and contracting its circulation other than that of refusing a certain proportion of each applicant's paper, without regard to his solvency or credit. Such a measure was seldom resorted to, since it was calculated to aggravate the evils of a financial pressure, by sacrificing the public in order to save the Bank. In practice, therefore, it will be seen that the Bank avoided the exercise of any other control over its discounts and circulation than is implied by a proper regard for the soundness of the bills it discounted. The directors might exercise more or less of caution in their loans, according as individual credit varied;

but they never during the Restriction attempted to act upon exchange or general credit, either by contracting or by expanding their issues.

The average amount of Bank of England notes in circulation, during ten years before the Restriction, was £10,800,000. The best authorities estimate that the coin may have then amounted to about £20,000,000, or somewhat more. There was also a large quantity of country bank paper; while certain wealthy districts, as Lancashire, for example, used no other currency than bills of exchange, which were passed from hand to hand, and in every case indorsed by the holder. There can be no reasonable confidence placed, therefore, in any estimate which assumes to establish any fixed sum as representing the value of English currency, previous to the Restriction. We think that £40,000,000 would be a moderate value to assign for it; and from this calculation Scotland and Ireland are excluded, since their currency systems were independent of England, and exercised no more influence upon hers than those of Holland or Hamburg.

The great war which lasted, with only a few months' intermission, for upwards of twenty years, began in February, 1793. It was preceded and accompanied by a violent commercial crisis throughout Europe, which caused in England a great number of bankruptcies, and a heavy fall in prices, the country banks suffering especially; but the Bank of England succeeded in maintaining its credit unimpaired under the shock; and, in spite of every difficulty, continued its specie payments and its ordinary discounts, to the immense relief of the mercantile community. Two years of the war passed away without altering this position of affairs. It was not till 1795 that a drain of bullion to the Continent began, which obliged the Bank directors to resort to the extraordinary measure of contracting their issues by rejecting a certain proportion of the applications made upon them for discounts, without regard to the credit of the applicants. During the next two years the Bank circulation was steadily diminished, as the supply of gold became smaller and smaller. But this policy of contraction was seriously hampered by the necessities of Mr. Pitt, then Prime Minister, who insisted upon advances,

which the directors could not honestly furnish. The Bank records are filled with repeated remonstrances addressed to Mr. Pitt on this account, and these, in February, 1796, were carried to the extent of an absolute refusal to discharge the bills drawn; while again, in July of the same year, a similar refusal was only overcome by the positive assurance of Mr. Pitt that it would be impossible to avoid the most serious and distressing embarrassments to the public service, unless an advance to the extent of £800,000 were made. The Bank yielded, but only under the strongest protest, declaring that nothing but the extreme pressure and exigency of the case could in any shape justify the directors in acceding. Whether this source of difficulty was due to bad management on the part of Mr. Pitt, or whether he had no choice but to lean upon the Bank, is of little consequence. The directors, at all events, carried out their policy of contraction. While the drain of gold continued, and their treasure fell from £6,000,000 in 1795 to £2,000,000 in August, 1796, the circulation was simultaneously reduced from £14,000,000 to £9,000,000. But violent as this contraction was, it failed to counteract the causes of the drain. Foreign subsidies, the payment for large quantities of imported grain, and of articles the price of which had been enormously increased by the war demand, prevented the exchange from rising. It is estimated that for three years, from 1794 to 1796, these extraordinary payments amounted to £40,000,000, — a calculation which is certainly not extravagant, if compared with the length of time and the amount of pressure required to restore the exchanges.

It is difficult to say what more could have been done by the Bank in order to preserve the country from the evils of an inconvertible currency. The directors might have refused to advance another shilling in loans, and, in order to save themselves, might have forced a national bankruptcy, as well as general private ruin; but they could scarcely have reduced their issues more resolutely than they did, or resisted more obstinately the entreaties of the merchants. These last were mercilessly sacrificed; and their fate was especially hard, since the crisis appears to have been caused by no act of theirs, but solely by a combination of political and natural

agencies, by bad harvests and foreign wars, over which they could have exercised no control, and on the occurrence or the cessation of which they could not have calculated.

The measures thus taken by the Bank were in fact successful. Early in 1797, the tide had already turned; the foreign exchanges began to improve; and there can be no doubt that, had the Bank been able to stand another month or two of pressure, gold would have flowed plentifully into its coffers. But precisely at the time of extreme exhaustion, after the foreign drain had been checked, but when the Bank was too weak for further resistance, a sudden panic seized the people of England. An ungrounded alarm of French invasion caused a run upon the banks of Newcastle, and obliged them to suspend payment. From Newcastle, the panic spread in all directions. Every country banker rushed to the Bank of England for assistance or for gold. The Bank responded by forcing its issues down to £8,640,000, while its treasures fell to £1,200,000, and the panic naturally grew more and more violent. Hopeless of averting their fate, the directors at last sent word to Mr. Pitt that suspension was inevitable; and on the morning of Monday, the 27th of February, an Order in Council, issued the preceding day, was posted on the doors of the Bank, forbidding further payments in cash.

The policy of the Bank throughout this crisis has been since that day very generally criticised; and the directors themselves afterwards expressed it as their opinion that the contraction had been pressed too far, until it contributed to bring about the very difficulty it was intended to preclude. It is contended that a bolder policy should have been adopted, and that the discounts should have been liberally increased, while the gold should have been paid out down to the last guinea. In support of this theory is instanced the celebrated crisis of 1825, when the Bank, in face of a drain which reduced its stock of gold to £1,027,000, increased its issues from £17,000,000 to £25,000,000, and succeeded in restoring confidence and maintaining its payments. However this may be, it is at least a matter of regret that Mr. Pitt should have sanctioned suspension before exhausting every possible alternative. At the worst, the Bank could only have refused to

redeem its notes. While there was a single chance left of escaping this final disaster, neither Mr. Pitt nor the Bank directors were justified in neglecting it. The mere political consequences of suspension, in that disastrous year, were a triumph to the enemy as important as the mutiny at the Nore or the Treaty of Leoben.

Mr. Pitt, however, felt the necessity of maintaining the credit of the Bank; and he appears to have thought that this might be done by giving to the suspension an official appearance, and throwing upon it the character of a compulsory act of government. He represented the Bank as a passive, or even unwilling, instrument in the hands of the Privy Council. The expedient was shallow, and unworthy of so great a man; nor was it likely to deceive any person, however dull of comprehension he might be. But its result was fortunate; for while Mr. Pitt declared that the affairs of the Bank were in the most affluent and flourishing condition, and that the restriction was only a precautionary government measure, which in a few weeks would be removed, he established, unconsciously as we must believe, a legal fiction of some value. Parliament never recognized any incapacity on the part of the Bank to meet its obligations, but only a temporary restriction, created by itself, and limited by law to a certain period. There was at least a delicate distinction favorable to national pride and private credit involved in this idea that there was no actual bankruptcy in the case, but that the government had seen fit, for the public convenience, to relieve the Bank for a time from a duty which it was still ready and able to perform.

It was not unnatural, indeed, that Mr. Pitt should make use of this or any other deception in order to quiet the general alarm. The idea of inconvertible currency was, in 1797, exclusively associated with the Continental paper of the American Congress, and with the assignats of the French Directory. It was supposed by men like Fox and Lord Lansdowne that the mere fact of inconvertibility must soon destroy that confidence in paper which enabled it to represent values. A few months, it was believed, would bring about this decay of credit. To provide against such a disaster,

extraordinary efforts were required. On the very day of suspension, a great meeting was held at the Mansion House, the Lord Mayor presiding; and more than three thousand business men pledged themselves, by resolution, to receive and to make their payments in bank-notes, as equivalent to coin. A nearly similar paper was signed and published by the Lords of the Council. At the present time, such a pledge would, in similar circumstances, be considered as quite superfluous; but in that day it had a value, and tended to restore public confidence. Had the foreign drain still continued, no doubt, bank-paper would rapidly have fallen to a discount, in spite of all the resolutions that could have been passed; but we have already seen that this cause of difficulty had ceased to act. The only effect of suspension was to lower the exchanges for a very few days, after which they again rallied, and before the close of the year they had risen to the highest point ever known. The Bank at once increased its issues, and commerce returned to its regular routine.

The suspension having once taken place, it became necessary for Parliament to intervene, not merely to legalize the act, but to establish a status for the new condition of the Bank. A secret committee was appointed, which made elaborate investigations, and concluded by reporting a bill, indemnifying the governor and directors for all acts done in pursuance of the Order in Council; superseding all actions which might have been brought against them for refusing payments; prohibiting them from issuing cash, except in sums under twenty shillings; sheltering them from prosecutions for withholding payment of notes, for which they were willing to offer other notes in exchange; restricting them from advancing to the Treasury any sum exceeding £600,000; obliging the collectors of revenue to receive bank-notes in payment; protecting the subject from arrest for debt, unless the affidavit to hold him to bail contained a statement that the amount of debt claimed had not been tendered in money or bank-notes; and limiting the duration of the restriction to the 24th of June following.

It is interesting to observe how cautiously the government acted. The policy of Mr. Pitt may not have been bold, nor necessarily correct; but it was at least free from the grievous

mistakes which have ruined or dishonored almost every country where an inconvertible currency has existed. He began by treating the suspension as a temporary difficulty, and carefully limiting its duration. In this respect, his successors invariably followed his example; and never, during the next twenty-three years, was there a time when Parliament allowed the country to consider the restriction as other than a temporary measure, for the termination of which a provision was made by law. He further pledged the government not to make an improper use of the Bank resources, nor to tamper with the currency by obtaining excessive advances, and this pledge he honestly observed. Finally, he refused to make the bank-note a legal tender, except as between the government and the public, still allowing the creditor to insist upon payment in coin, if he chose to do so; and leaving open to him his ordinary process in law, except only the power of arrest in the first instance. England probably owes more than she is aware of to Mr. Pitt for his forbearance in regard to the currency. His necessities were great, and his power was unlimited. He might have used paper money as was done by contemporary financiers; but the example which he set became a law for his successors, so that whatever mistakes he or his imitators may have made, they are not chargeable with that of tampering with the currency.

The Restriction Act passed without opposition, and in June was continued till one month after the commencement of the next session. In the mean time, gold began again to flow into the Bank, which held in August treasure to the amount of £4,000,000, against a circulation of £11,000,000. When Parliament again met in the autumn, the Bank directors announced themselves ready to resume payments, "if the political circumstances of the country do not render it inexpedient."

Had Mr. Pitt been able to foresee the course which events would take during the next ten years, he would surely have acted at once upon this opportunity. The dangers and temptations of irredeemable paper were too obvious for any statesman to incur them, unless under an absolute necessity. But Mr. Pitt probably foresaw something very different from what

actually occurred. He had every reason to expect a series of monetary convulsions and commercial misfortunes, such as had harassed him since 1792. On the other hand, he saw that none of the prophesied evils had really followed restriction. It had been proved that bank-paper did not depend for its credit merely on its convertibility. Month after month had passed away, not only without bringing depreciation, but even rapidly increasing the stream of precious metals which flowed towards England, so that people were little inclined to dwell upon the dangers or temptations of restriction, and probably over-estimated its value as a safeguard against panic. They were already demoralized. Mr. Pitt was not ashamed to fall back upon the hint given by the Bank directors, and to declare, "that the avowal by the enemy of his intention to ruin our public credit was the motive for an additional term of restriction"; — thus, as Mr. Tierney rejoined, in order to leave the enemy no credit to attack, destroying it himself; for it is difficult to see how France was prevented by the Restriction from any action upon public credit, except precisely that of causing another restriction.

The bill, however, by which the measure was continued till one month after the conclusion of peace, passed with little opposition, Mr. Fox and his friends having ceased to take part in the debates. Had the Bank been now obliged to resume its cash payments, it would have had no great difficulty in maintaining them till 1808 or 1809, when it must inevitably, from mere political causes, have again broken down. But the occasion was lost, and from this time the Restriction took its place among the permanent war-measures of the government.

Previous to the suspension, no bank-note of less than five pounds in value was allowed to circulate. Under the new state of affairs this prohibition was removed, and notes of one and two pounds began rapidly to drive gold from ordinary use. With this exception, the public appears to have been quite unaffected by the change in the currency. Throughout the year 1798 the Bank continued to receive treasure, and the foreign exchanges continued favorable, until at the end of February, 1799, there was an accumulation of more than £7,500,000 in the Bank

vaults, against a circulation in notes of less than £13,000,000. Apparently nothing could be more solid than such a position. No expansion of consequence occurred in the Bank circulation; and yet, by the close of 1799, the exchanges had turned against England, and the gold began to disappear as rapidly, or almost as rapidly, as it had accumulated. The explanation of this sudden revolution was simple. A deficient harvest had caused large importations of corn; a severe commercial crisis at Hamburg had produced a considerable pressure for the immediate transmission of funds from England; and the war on the Continent created a perpetual demand for gold to supply the armies. Had the Bank now been obliged to redeem its notes, it might probably have contracted its issues. Instead of doing so, it extended them in proportion to the increased demand for discounts thrown upon it by the rise in the market rate of interest, and the circulation rose till in the first quarter of 1801 it averaged nearly £16,500,000. The price of gold also rose, until it stood at a premium of ten per cent.

These events naturally caused uneasiness; they gave rise, in fact, to the first currency controversy. Mr. Boyd, a member of Parliament, published a pamphlet with the object of proving that the depreciation was due to the excess of bank-notes. He was answered by Sir Francis Baring and Mr. Henry Thornton, whose work remains to this day a standard authority. As the question then raised was practically identical with that which ten years afterwards excited the most elaborate and earnest discussion, we shall not now stop to examine into it. Events soon decided in favor of Mr. Boyd's opponents. The Bank continued its policy undisturbed; the pressure ceased; during 1801 and 1802 the foreign exchanges again rose, and gold fell almost to par. It seems to be beyond dispute that the temporary depreciation of 1801 was preceded by the fall of exchange, and was caused by it; and that, when the accidental foreign demand for gold had been satisfied, the currency returned to its natural value, without any effort on the part of the Bank, or any artificial pressure on credit or on the circulation.

Without admitting this to be the case, it appears scarcely possible to explain the course which events afterwards took, and the perfect stability of the currency during a number of

years when the circulation was still further enlarged. The Treaty of Amiens was signed in March, 1802; and the interval of peace, short as it was, allowed Great Britain a momentary relief of inestimable value. But the Restriction Act was again continued for another term, and the Bank circulation rose to nearly £17,400,000, without producing any sensible effect on exchange or on the price of gold. War was resumed in May, 1803, but without affecting the value of the currency, which during the next five years remained stationary in its amount, or only varied slightly between £16,000,000 and £17,000,000. The Bank, meanwhile, anxious to maintain its reserve of bullion, offered a standing premium of about three per cent for gold, and hence it has been usually supposed that the bank-notes were actually depreciated to this extent. This, however, was not the case. Under such circumstances the exchanges become the only true standard, and in those days the quotations of exchange included any existing depreciation of paper; the nominal, not the real, exchange was always given, so that, in the want of any fair quotations of gold, we can only estimate its fluctuations in value by means of the recorded fluctuations in exchange. It appears that these were very slight, and rather in favor of England than against her, so that the Bank had actually accumulated in 1805 the very unusual sum of £7,600,000, — a result which indicates that the bank-notes with which this treasure was bought could not have been depreciated to the full extent of the three-per-cent bonus offered as an inducement to the seller. During the whole of this period from 1803 to 1808, Bank paper was in fact at par, or not enough below it to have made the exportation of gold profitable in a time of specie payments. There were no doubt intervals when the Bank lost gold, but, if the average of each year be taken, it will be found that the exchanges were uniformly favorable.

No comparison can be just which is drawn between such a state of things as this and the ordinary forced issues of government paper, such as have been known in most countries suffering under prolonged difficulties. There is a distinct difference between the two cases, and we are obliged to dwell with emphasis upon this difference, because we believe that it entirely removes the English currency from the same class with

ordinary instances of depreciation. Usually the issue of paper has been assumed by governments themselves, and such issues have been made directly in payment of expenses, without providing on the same scale for a return of the paper put out, or consulting in any way the wants of the people. Bank of England paper was in no sense a government issue. It was not even government paper, but merely that of a private banking corporation, which was conducted on very strict banking principles, and whose notes, so far as they were in excess of public wants, were inevitably returned at once to the bank counters. The government, therefore, was not to blame if paper was issued in excess; but in such a case it must have been the Bank directors who failed to observe proper rules in their extensions of credit either to the government or to individuals.

It is necessary, therefore, to turn aside for a moment in order to examine the Bank rules of that day in regard to their ordinary action upon the circulation, since it is here that the secret will be found, not only of the steadiness of value which marked the currency during the first ten years of war, but of its extraordinary fluctuations afterwards, — fluctuations which are quite inexplicable on the ordinary supposition of a forced issue. It must be remembered that the usury laws fixed the highest legal rate of interest at five per cent. The Bank rule, during the whole period of Restriction, was to discount at this rate all good mercantile bills offered, not having more than sixty-one days to run; and in making these advances the only duty which the directors considered themselves obliged to observe was that of throwing out, so far as possible, all bills which there was reason to believe represented speculative transactions. In other respects the Bank was perfectly passive. It neither contracted nor expanded its own issues, but allowed the public demand to contract or expand the currency, in the firm conviction that the public would not retain more notes than it actually required. Naturally the demand for discount at the Bank varied according to the market rate of interest outside; and when private bankers lent money at three per cent, comparatively few persons cared to pay five to the Bank of England. During the early part of the war the Bank rate was in fact almost always higher than that in the open market, and

consequently the Bank issues were moderate. By a regularly self-balancing principle, the advances made to government in an ordinary state of affairs diminished the private demand, since the government at once paid away to the public the notes it received from the Bank, and this money, coming back to the private bankers, enabled them to extend their discounts and to accommodate those merchants who would otherwise have been obliged to apply to the Bank. It is merely a theoretical question, what would have been the result had government obliged the Bank to make excessive advances on its account. In point of fact, the case did not occur, and government contented itself with moderate accommodation; while, as a rule, the private demands were greatest when the advances to government were at the lowest point.

Thus the Bank was throughout a mere channel of credit. It did not, and under these rules it could not, exercise any direct control over its issues, and it conducted its business upon much the same principles as would have regulated any sound private banker, whether he issued notes or not. Its theory excluded the idea that it was bound to regard the exchanges or the price of gold, or to interfere in any way with the course of business. Its sole duty was to lend capital, and it was for the public and for each individual merchant to see that his affairs were in a proper condition, that speculation was avoided, that the exchanges were watched, or to take the consequences of neglecting such obvious precautions.

And so long as each individual did observe a proper degree of precaution, or until political difficulties or some other accidental cause deranged the ordinary state of credit, these rules of the Bank answered the purpose for which they were made. But while the usury laws remained in force, any rise in the market rate of interest was certain to precipitate the whole body of merchants upon the Bank of England, and any crisis which obliged private bankers to seek, instead of furnishing credit, was sure to bring the whole nation to the counters of the Bank. In either of these cases, therefore, the Bank was liable to be driven into an excessive issue of its paper, and extension of its credit. But it did not necessarily follow that such an expansion would lead to a permanent increase of the

circulation. On the contrary, whenever the crisis was over, and the rate of interest again had fallen below the Bank standard, the demand for discount would naturally decline, and the circulation would return to its normal state.

For two or three years after the war had been resumed, everything went on in a sound and regular course. Great Britain might have carried on hostilities indefinitely, had she been subjected to no greater pressure. The currency retained its value, and trade its regularity, but taxation was greatly augmented and the cost of production increased. Prices steadily rose, until they attained in 1805 almost as high a range as ever afterwards. With the exception of grain, an article peculiarly liable to be affected by accidental causes, it appears that almost the whole rise in prices, which was afterwards attributed to depreciation of currency, took place during the first twelve or fifteen years of the war, when no depreciation existed. Much of it occurred at a time when paper was highest in credit, and there is no reason for supposing that the same thing would not have equally happened, even if the Bank had continued its specie payments.

This comparatively happy and prosperous state of affairs was not destined to continue. While the English were waging a cheap and effective war on the ocean and in the colonies, while Nelson crushed the combined navies of France and Spain at Trafalgar, and Wellington subdued the Mahrattas in India, Napoleon reached Vienna, and, turning from Austerlitz to Berlin, swept the whole of Germany into the hands of France. From Berlin he turned to Russia, and at Friedland stopped for the mere want of other countries to conquer.

Such successes promised little good to England. Napoleon hastened to turn his new power against her. It was from Berlin, in November, 1806, that he issued the famous decree declaring the British Islands in a state of blockade, confiscating English property wherever found, and prohibiting all intercourse with the British nation. Russia joined the coalition in the following year, and Sweden in 1809. Thus the Continent was closed to English commerce.

Napoleon's decree was an outrage to international law, but the Continental System thus enforced was a prodigious shock

to Great Britain. There seemed no end to the losses and complications which it caused. Yet there was still one country apparently beyond its reach, whose commerce was of inestimable importance. The United States of America was still an open market, and the Berlin Decree almost inevitably forced the United States into the arms of England. The British government, however, with characteristic fatuity, actually assisted Napoleon to extend the Continental System even to America. The Berlin Decree, and that of Milan which followed it, had declared the British Islands to be in a state of blockade, and ordered that no ship should enter any port under the control of France, if she came from England, or even had touched at England, or if any part of her cargo was English. The British government retaliated in January, 1807, by issuing an Order in Council interdicting the passage of vessels between any two ports which were not open to British commerce; and in November followed this up by declaring all ports closed to the British flag to be in a state of blockade, and all vessels trading to or from such ports, or carrying any produce of such countries, to be, with their cargoes, lawful prize. The American government responded to these outrages by interdicting commerce with both England and France.

No ordinary review can undertake so difficult and complicated a labor as that of fairly examining the various effects of these measures on English credit and currency. That British trade with the Continent was annihilated, that it was for a time impossible to determine the course of exchange, and to recover debts, was but the most obvious and immediate result. No sooner did it become evident that the decrees were to be rigorously enforced, than all articles for a supply of which England depended on the Continent rose to speculative prices. Flax, linseed, tallow, timber, Spanish wool, silk, hemp, even American cotton, advanced in 1807 and 1808 to prices two or three times those hitherto prevailing. And while one class of imports was thus thrown wholly into the hands of speculative holders, another class, consisting of all colonial produce, underwent an exactly opposite process. The European market was closed to it. Sugar and coffee were selling at Calais for three, four, and five times their price at Dover.

And meanwhile the almost omnipotent naval force of Great Britain was contributing, under the Orders in Council, to aggravate this evil, and to pile up still vaster quantities of unsalable goods in British warehouses, by compelling every neutral ship to make for an English port.

A wild spirit of speculation now took possession of the British people. Brazil and the South American colonies of Spain happened at this moment to offer a new market, and merchants flung themselves upon it as though it had no limit. The beach at Rio Janeiro was for a time covered with English merchandise, which there were no warehouses to hold, and which there was no chance of selling. In London, a rage for visionary joint-stock enterprises characterized the years 1807 and 1808. None of the symptoms were wanting which long experience has shown to be invariable precursors of commercial disaster.

The Bank of England, however, still preserved its steady and conservative routine. The issues were not increased, the price of gold did not vary, the exchanges had not fallen below par, as late as September, 1808. So far as the Bank is concerned, there is no indication that any unusual speculation existed, or that it lent itself or was asked to lend itself to speculative objects. It was not through the Bank that speculators acted. But if we turn to the private and country bankers, and, out of the almost impenetrable obscurity in which this part of the subject is hidden, attempt to gather some evidence of their condition, it will be found, not indeed that their paper was depreciated, — for that it could not be without immediately bankrupting the issuer, — but that their credit had been extended far beyond any moderate limit. It was not merely that the number of country banks had been more than doubled in ten years. What was of greater consequence than this was the change which had gradually crept into their mode of conducting business. Originally their rules of discount had been the same as those of the Bank of England; they accepted only short bills, representing, so far as they could judge, real transactions of business. They gradually began to make advances upon bills of longer date, and then to lend money without security of any kind. Paper which could not be discounted in London was sent down to them by their London agents.

Their West Indian bills had from twelve to thirty-six months to run. They made little inquiry as to what might be accommodation paper, and still less as to the speculative transactions of their customers. The reaction which ultimately followed, at the very time when the Bank circulation was greatly increased and increasing, proves the extent to which private credit had been abused.

We have been led into this somewhat tedious account of England's financial situation in 1807 and 1808, by the hope of showing how critical her position was, and how inevitable a collapse of credit had become. Down to this point, however, the subject offers comparatively few difficulties. Beyond it, the whole region has been made a favorite battle-ground for armies of currency theorists. It is only within the last thirty years that even a fair comprehension of the matters in dispute has been made possible to the public, through a great work by Mr. Thomas Tooke. The opinions first advocated, and the facts first proved by the author of the "History of Prices," have since been accepted by some of the highest authorities in political economy, of whom Mr. John Stuart Mill stands at the head. That they are still hotly contested in England is a fact which only adds to the interest of the inquiry.

It has already been stated, that down to September, 1808, the exchanges remained favorable to England, and the price of gold continued firm. During the first half-year, the average Bank circulation had been £ 16,950,000. At the end of August, £ 17,200,000 were in issue. These sums were not excessive. If the small notes, which merely supplied the place of coin withdrawn, are deducted, it appears that the real circulation was but £ 12,993,000 ; less than had frequently been in issue before, and considerably less than has always been in issue since. The prices of all commodities, except grain, had already reached their highest point, or reached it within six months afterwards. It was at this time, when no change except ordinary fluctuations had occurred in the currency for seven years, that the exchanges suddenly turned, and the price of gold rose.*

* Bank Circulation.

Date.	Total.	Notes of £ 5 and upwards.	Bank Treasure.	Price of Gold.
1797, 28 February	£ 9,674,780	£ 9,674,780	£ 1,086,170	100
31 August	11,114,120	10,246,535	4,089,620	100

The Continental System had begun to act. The mercantile ventures of the last year proved ruinous; the enormous importations at fabulous prices required to be paid for; the unfortunate military expeditions which Great Britain was now renewing against the Continent demanded the transmission of gold. England was paying money in every direction, and she was selling her goods nowhere. No one watched this process of exhaustion more carefully, or understood its consequences better, than Napoleon himself.

The Bank, following its invariable routine of business, took no notice of the sharp fall in exchanges, or of the heavy drain which rapidly reduced its treasure, and, instead of contracting its issues, allowed them slowly to expand, according to the demand for discount. From £ 13,000,000 in 1808, the circulation in notes of £ 5 and upwards rose to £ 14,325,000 in November, 1809. The exchanges indicated already a difference of about fifteen per cent between paper and gold. Meanwhile the government expenses requiring transmission of gold abroad had increased to above £ 10,000,000 for the year. The excessive prices of that class of goods which could only be obtained from the Continent stimulated merchants into every possible effort to procure them. Ships' papers were regularly forged as a matter of business; licenses for trading were obtained at

Date.	Total.	Notes of £ 5 and upwards.	Bank Treasure.	Price of Gold.
1798, 28 February	£ 13,095,830	£ 11,647,610	£ 5,828,940	100
31 August	12,180,610	10,649,550	6,546,100	100
1799, 28 February	12,959,800	11,494,150	7,563,900	100
31 August	13,389,490	12,047,790	7,000,780	100
1800, 28 February	16,844,470	15,372,930	6,144,250	109
31 August	15,047,180	13,448,540	5,150,450	109
1801, 28 February	16,213,280	13,578,520	4,640,120	107.85
31 August	14,556,110	12,143,460	4,335,260	106.5
1802, 28 February	15,186,880	12,574,860	4,152,950	106.2
31 August	17,097,630	13,848,470	3,891,780	103
1803, 28 February	15,319,930	12,350,970	3,776,750	103
31 August	15,983,330	12,217,390	3,592,500	103
1804, 28 February	17,077,830	12,546,560	3,372,140	103
31 August	17,153,890	12,466,790	5,879,190	103
1805, 28 February	17,871,170	13,011,010	5,883,800	103
31 August	16,388,400	11,862,740	7,624,500	103
1806, 28 February	17,730,120	13,271,520	5,987,190	103
31 August	21,027,470	16,757,930	6,215,020	103
1807, 28 February	16,950,680	12,840,790	6,142,840	103
31 August	19,678,360	15,432,990	6,484,350	103
1808, 28 February	18,188,860	14,093,690	7,855,470	103
31 August	17,111,290	12,993,020	6,015,940	103

great expense from both governments. Importations were by these means greatly increased, and large quantities of grain were brought in to supply an unusual deficiency in the harvest. The receipts of cotton were more than doubled, and the market was again overwhelmed with colonial produce. Thus no opportunity was allowed for a recovery of the exchanges, and the country continued to be drained steadily of its gold.

Throughout the year 1810 the same process was continued. Again the importations were greatly increased, and the quantity of grain brought from abroad was far in excess of what had been imported in any year since 1801. Wellington was now in the lines of Torres Vedras, requiring continual supplies of gold. The military efforts made by England on the Continent were greater than ever before, and the foreign expenditure rose beyond £12,000,000 for the year. The exchanges continued to fall, although at one time there was a tendency to recovery. Gold remained at about the same premium as in 1809, while the government and the public equally increased their demands on the Bank, until in August the circulation of large notes rose to £17,570,000.

If irredeemable government paper had been forced upon the public without regard to its wants, until within a space of two years the currency had swelled from a total of £17,000,000 to one of £24,500,000, it scarcely admits of a doubt that the result would have been a rise in prices and an increase of speculation. According to all the old currency theories, such ought now to have been the case with England. In fact, directly the contrary result took place. During the last months of 1809 and the whole of 1810, a fall of prices and a destruction of private credit occurred, which for severity remains perhaps to this day without a parallel, as it was then without a precedent. Half the traders in the kingdom became bankrupt, or were obliged to compound. Country banks by dozens were swept out of existence. Rich and poor alike were plunged in distress, while the crash extended to the Continent and to America. It was this universal collapse of credit which, by driving the whole trading class for assistance to the Bank, obliged the Bank to increase its issues. Nothing but an absolute refusal of discounts could have prevented suspension, had

the Bank at this moment been paying its notes in specie. According to one theory, the withdrawal of so much country-bank paper should have restored gold to par, since it is very improbable that the Bank issues supplied the vacancy. This would no doubt have been the case, if the depreciation had been, as is usually supposed, the result of over-issue; but in fact the foreign debt of England was enormous; its immediate payment was necessary; gold was the only exportable commodity, and gold was not to be had. Mr. Baring declared in the House of Commons, that, if his firm wished to obtain fifty thousand pounds sterling for transmission abroad, he did not know how such a sum was to be procured even at a premium of fifty per cent. To export more bulky goods was simply impossible. At this time the British merchant was sending sugar by sea to Salonica, and thence on horseback through Servia and Hungary, in order to reach Vienna; one parcel of silk sent from Bergamo to England, by way of Smyrna, was twelve months on its passage; another, sent by way of Archangel, was two years. The British government attempted to establish a smuggling depot at Heligoland, in order to overcome the obstructions caused by the Continental System. A single licensed cargo to a French port cost for freight alone twenty times the cost of the vessel which carried it. Gold alone was comparatively easy to export, and naturally bullion rose in value.

In all this there is clear evidence of a terrible convulsion in commerce, and no doubt of a previous excessive expansion in credit, followed by as excessive contraction; but there is nothing which indicates an excess of currency in the sense which that phrase bears in regard to the effect of forced issues on prices. Undoubtedly there was a depreciation of ten or fifteen per cent, or even more, in paper as compared with gold, and there may justly be a question whether the Bank was not bound to restrict its issues till that difference was removed. But so long as the usury laws remained in force, the Bank could not act upon the exchanges by raising its rate of interest; and to refuse accommodation would have been the ruin of such merchants as had hitherto succeeded in surviving the shock. Even had the Bank resorted to this desperate measure, such was the preponderance of foreign payments over receipts from abroad,

that no possible pressure could have immediately restored the balance of exchange. In ordinary times a monetary crisis effects this result by reducing prices and thus making it possible to export goods at a profit; but it is difficult to see how any reduction of prices could have had such an effect in 1810, since for years before that time it had been impossible to obtain in Holland and Hamburg, even at three and four times their English price, the goods which overwhelmed the British market. The only result of Bank contraction, therefore, must have been to stop importations. But in the first place the general fall in prices was alone sufficient to produce this result, as was proved in 1811. And, moreover, grain was at famine rates; the people must be fed; the foreign expenditure of the government also defied laws of political economy, and Wellington's army in Portugal required millions in gold. If, therefore, the Bank had attempted to put a still more severe pressure on the exchanges than already existed, it would have found itself paralyzed by the government at its first step, and in the struggle which must have followed the people would have been ground into the dust. Even under the liberal system adopted, there was a time, in 1811 and 1812, when the general distress shook society to its foundations. Had the Bank wilfully intensified and prolonged this distress, it is not improbable that Napoleon's Continental System might, after all, have proved the greatest success of his life.

The fall in foreign exchange during 1808 and 1809 did not attract very much public attention until Mr. Ricardo published a pamphlet on the subject, — "The High Price of Bullion a Proof of the Depreciation of Bank-Notes." Shortly after the meeting of Parliament in 1810, a committee was appointed, at the instance of Mr. Francis Horner, to investigate the causes of the high price of gold bullion. This was the famous "Bullion Committee," whose Report made so marked an era in currency problems that it might almost be called their *pons asinorum.* Its doctrines, rejected by Parliament in 1811 only to be triumphantly adopted in 1819, acquired through the conversion of Sir Robert Peel an overruling ascendancy, and, embodied in the Bank Charter Act of 1844, still hold sway in England, although the more liberal economists have long since protested against the application given to them.

We would willingly linger over the Bullion Report, if it were possible to compress the subject within our limits; but this great controversy does not allow of narrow treatment, and we prefer to lay it aside. It was based upon three propositions: first, that Bank paper was depreciated as compared with gold; secondly, that this depreciation was caused by over-issues; thirdly, that the price of gold and the state of foreign exchange should regulate the issues of paper. And the Report closed by recommending that the Bank should be obliged to resume payments within two years.

Had the government been in the hands of able or dexterous men, Mr. Horner's resolutions, in which the substance of his Report was embodied, need not have been so difficult to deal with as they proved. The first proposition was indeed incontrovertible, and no sensible being could have fallen into the blunder of disputing it. The third was, if not indisputable, at least not necessary to dispute under certain limitations. But the second was very far from evident in the sense which Mr. Horner gave to it, and Mr. Thornton, perhaps the highest authority in the House, appears not to have understood it as absolutely excluding the idea that the depreciation might have been due to a deeper cause; while the concluding practical measure was supported by scarcely any one besides Mr. Horner, its author.

But the government was held by a class of men equally incapable of seeing their own mistakes, and of profiting by those of their opponents. The Ministers began by plunging headlong into the grossest absurdity they could have found. They denied that Bank notes were depreciated at all. Assuming that the sale of coin for more than its nominal value in paper was forbidden by law, they undertook to affirm that the Bank note and the guinea still maintained their relative worth in regard to each other. They denied that bullion was the true standard of value, and they affirmed that it was the stamp and the stamp alone which made the guinea a standard. They denied that the amount of circulation affected the price of gold, or that the Bank issues had anything to do with the course of exchange. Yet at intervals they were obliged practically to admit the very conclusions which they were so eager to contest, until all their

really accurate statements and forcible reasoning became inextricably entangled and hidden from sight in a confused mass of inconsistent arguments.

On the other hand, they had as opponents some of the ablest men whom England has ever produced. It was pitiable to watch the torture of Mr. Vansittart, Mr. Rose, and Lord Castlereagh, in the grasp of Mr. Horner, Mr. Huskisson, and Mr. Canning. The mistakes of the bullionists are hidden by the brilliancy of their oratory, the sparkle of their wit, the vigor and solidity of their genius. Sympathy is irresistibly attracted to their side, when it is seen what magnificent powers they were obliged to use, in order to convince an unreasoning majority of the simplest principles in practical business. And yet, after all these efforts, they thought themselves fortunate in being defeated by a vote of only two to one.

It would have been happy for Mr. Vansittart and his associates, had they been willing to rest satisfied with this negative upon the resolutions offered by Mr. Horner. Victorious in defence, they thought it necessary to establish their advantage permanently by a vigorous assertion of what they deemed the true principles of credit and currency. Mr. Vansittart accordingly moved, in his turn, a long series of resolutions.

The third of these has been the chief means of preserving Mr. Vansittart's memory. It was worded as follows: — "*Resolved*, That it is the opinion of this committee that the promissory notes of the Bank of England have hitherto been, and are at this time, held in public estimation to be equivalent to the legal coin of the realm, and generally accepted as such in all pecuniary transactions to which such coin is lawfully applicable."

This position was beyond the reach of argument, but not of ridicule. In the whole range of Parliamentary oratory, there are few examples of sarcasm so happy as that which Mr. Canning poured out upon this unfortunate resolution in his speech of the 13th of May, 1811. But it was all in vain. The House sustained Mr. Vansittart by a vote of 76 to 24; and from that day to this the resolution has stood, an object of laughter and wonder to each succeeding generation.

Thus the Bullion Committee was disposed of, but the subject was further than ever from a satisfactory settlement. Within

two months of the passage of this resolution, in which Parliament had gravely pledged the people to believe that Bank notes were equivalent to coin, two events almost simultaneously occurred, which obliged the government to take active measures in order to compel the people to accept these same Bank notes. The first of these difficulties was due to an unexpected interpretation of the law. Two obscure individuals, one a Jew pedler named De Yonge, the other a guard on the Liverpool mail-coach, had been taken in the act of buying guineas at a premium, — an act supposed to be illegal, and, like the exportation of coin, subjecting the delinquent to the penalties of a misdemeanor. Government determined to make an example of these persons, and they were accordingly indicted under an obsolete statute of Edward VI., and, the facts being clearly proved, they were duly found guilty of the acts charged in the indictment. But their counsel raised the point of law, that the act as laid in the indictment and proved in evidence was not an offence in law, inasmuch as the statute of Edward VI. was intended to apply only to the exchange of one sort of coin for another. Judgment was respited until the opinion of the twelve judges in the Court of the Exchequer Chamber could be obtained on this point; but at length, on the 4th of July, 1811, Lord Ellenborough pronounced the unanimous decision of the Court, that the exchange of guineas for bank-notes, such guineas being taken at a higher value than they were current for under the King's proclamation, was not an offence against the statute upon which the indictment was founded. Thus the whole government theory in regard to paper money was at once overthrown.

Almost at the same time with this blow, the famous third resolution was attacked from another side with a vigor far more alarming. It was well understood that the law of 1797 had by no means made Bank paper a legal tender. The case of Grigby *vs.* Oakes, in 1801, had established the principle that Bank of England notes might be refused by the creditor, and the debtor must in that case discharge his debt in coin. Practically, however, the Bank note had been received as equivalent to coin, except in some remote districts of Ireland, where the unfortunate peasants were obliged to buy guineas at a premium from the landlord, in order to discharge their rents.

The government policy, however, seemed purposely calculated to challenge attack, and it was perfectly natural that the bullionists, who saw no limit to the possible depreciation, should resort to the last means now left for compelling government to check it. Lord King, a nobleman of high character and strong liberal principles, accordingly issued a circular to such of his tenants as held leases dated before the depreciation began, requiring them in future to pay their rents either in gold or in Bank paper representing the market value of gold. Even the dignity of the House of Lords was almost overthrown by this unexpected attack. A storm of indignation burst on the head of Lord King, whose practical sarcasm was more exasperating to the Ministry than even the satire of Mr. Canning. But Lord King was in his right; he was acting from conscientious motives, and he would not yield. Yet, after the passage of Mr. Vansittart's resolution, this act directly tended to bring Parliament into public contempt. "My Lords," said Lord Grenville, in opening his speech on the subject, "it is painful to me to observe, that I cannot remember in the course of my life to have ever seen the Ministers of this country placed in so disgraceful a situation as that in which they appear this night." Obviously some action had become necessary, and yet Ministers hesitated, in the vague hope that Lord King's example would not be followed. The judges' decision in De Yonge's case, however, turned the scale; but even then, such was the general dislike to a law of legal tender, and such was the difficulty of forcing a contraction in the Bank discounts, that they were placed in a most embarrassing situation. There was apparently a third alternative, — that of allowing Lord King to proceed; but in fact this would have established two scales of prices throughout the country, and the result would ultimately have been that the Bank, rather than endure the discredit thus attached to its paper, would have preferred to withdraw it wholly.

The Ministers were saved from this dilemma by Lord Stanhope, one of their ordinary opponents. He invented a measure which is certainly one of the curiosities of legislation, — a measure which disposed of Lord King, and established the law for such cases as that of De Yonge, but neither made

paper a legal tender, nor contained the trace of a legal principle. The act, which has since been commonly known as Lord Stanhope's, made the purchase or sale of coin for more than its legal value in Bank notes or other lawful money a misdemeanor, as also the reception or payment of notes for less than their nominal value; and it further deprived the creditor of the power of distraining, in case a tender in Bank notes to the amount of the debt had been made.

Strange to say, this preposterous statute completely answered its purpose. The courts seem never to have been called upon to interpret it, nor did any creditor attempt to enforce his rights. The law officers of the crown did not venture to express any opinion upon the bill while on its passage through Parliament. During the ten years that the Restriction Act still remained in force, with this measure of Lord Stanhope's as its supplement, no man in England really knew what the law was as affecting the currency, or the extent to which Bank notes were recognized as the lawful equivalent of coin. In the failure of any judicial declaration on the subject, we can only refer to an opinion expressed in debate by Sir Samuel Romilly. That eminent lawyer pointed out to Parliament that, if the object of government were to prevent Lord King or any other landlord or creditor from insisting upon payment in coin, the bill was far from answering its purpose. Creditors would still have the right to demand gold, and no court could refuse in such a case to give judgment against the debtor, who was yet apparently debarred by the act from obtaining gold without incurring the penalties of a misdemeanor. The creditor, having obtained his judgment, need not, and probably would not, proceed by way of distraint upon the goods of his debtor. If a landlord, he would resort to an ejectment. In any case, however, he might proceed against the person, and shut up the debtor in jail indefinitely, or until he made himself liable to further imprisonment by purchasing coin. There appears, however, to have been one means of escape left open to him still. The law only prohibited the trade in coin, not that in bullion. If the debtor, therefore, chose to purchase bullion, and have it coined at the mint, there seems to be no reason why he might not so have evaded the law.

Ministers, however, gave it to be understood that, if creditors pressed their rights to this point, it would become necessary for Parliament to intervene by creating Bank notes a legal tender. It is difficult to see precisely what was gained to the country by a resort to these absurd subterfuges, or why a legal-tender act should not have been passed outright, since Lord Stanhope's bill was intended to have, and did in fact produce, the same effect, except that it went much beyond the limits of reasonable legislation, and accomplished its purpose only by creating a new offence hitherto unknown to the law. The plea that it successfully met the emergency, is merely an excuse for slovenly legislation.

This act, hurried through Parliament in July, 1811, just at the close of the session, was the sole result of the currency controversy, unless Mr. Vansittart's resolutions are worthy of sharing its credit. From this time it became evident that no interference by government in monetary matters was to be looked for, but that the Bank was to retain that exclusive control which it had hitherto possessed. This result was probably fortunate for the country. The Bank directors, if not great masters of statesmanship, were at least convinced that any arbitrary action of their own would only aggravate the evils of the situation, while, if the foreign and domestic policy of the government in other respects furnishes any idea of the probable result of its interference in Bank affairs, there is no disaster which it might not have brought upon the credit and resources of the community.

The great financial crash of 1809 and 1810 threw the country into a state of profound distress and depression, but it had the effect of preparing the way for a rapid change at the first sign of military success. The year 1811 marked perhaps the lowest point of England's fortunes; but in the autumn of that year the prospect became brighter. Napoleon had now broken with Russia, and was preparing his great campaign to Moscow, while Wellington had achieved unusual success in Portugal. There was hope that both the Russian and the Spanish ports would soon be reopened, while the colonies and South America were actually consuming again large quantities of British goods. Importations into England

had meanwhile fallen to a very low point, and the exchanges were slowly creeping upwards. The pressure upon the Bank for assistance and for discounts fell off as credit recovered itself, until the circulation, which had reached £17,570,000 in August, 1810, contracted itself to £15,365,000 in August, 1812, the small notes excluded.

What was only hope in 1811 became certainty in 1812. Napoleon was driven both from Russia and from Spain. In another year all Europe was again open to British commerce, and in April, 1814, peace was restored. During this period, many of the dangerous symptoms of 1807 and 1808 again made their appearance; the circulation had become much smaller, but nevertheless prices rose; speculation was as general, if not so desperate, as in 1808; the Continent was flooded with English goods, while in England itself the price of wheat had risen, in 1812, to nearly 160 shillings the quarter.

But although the circulation was diminished by £2,000,000, although public confidence was so far restored that prices generally rose, although the exchanges became considerably more favorable, still gold showed no sign of falling in value. The premium had risen to forty-two per cent in September, 1812, and after various fluctuations it was again forty-two per cent in the autumn of 1813. Then at last the fall began, and for a twelvemonth gold continued to decline steadily, until, at the close of 1814, the premium was less than twelve per cent. And it should be remarked that the rise in value of Bank paper was coincident with another very large extension of issues, which now reached £18,700,000.

This extension was due partly to government, but partly, as in 1810, to the private demand. The whole fabric which speculators had raised for themselves on the apparently solid basis of supposed European necessities had crumbled to pieces at the first shock. Europe was too poor to buy or too thoroughly plundered to pay for English merchandise. The speculations abroad failed at the very time when a prodigious fall in the price of grain ruined the English farmers and the country bankers, who depended upon agricultural prosperity. The collapse was general and disastrous; England was again

plunged into distress at the very time when her success was most brilliant; for two years after 1814, trade stagnated and merchants became bankrupt, without the slightest reference to the price of gold or the amount of circulation; nor is there any reason to suppose that the Bank could have prevented, or even shortened, the distress by any action upon the currency.

However devoted might be the adherence of theorists to their own favorite currency dogma, the most ardent follower of Mr. Horner could scarcely have regretted that the principles of the Bullion Report had not been made obligatory as a rule of action for the Bank during the year 1815. The evils of inconvertible paper are no doubt many, but there are also advantages in the system during times of political trouble; and it is impossible to deny that the violent convulsions of 1815 would have proved too severe a trial for any but the most elastic form of credit. During January and February, gold had stood at about 115, as compared with paper. The Emperor returned from Elba and arrived in Paris on the 20th of March. The next quotation of gold is on the 4th of April, when at one leap it rose to 137, almost as high a point as it had reached during the war. The exchanges went down with almost equal violence; but the Bank circulation remained absolutely stationary. After the first panic was over, gold began again to fall slowly, and on the news of Waterloo it declined to 128; on the 1st of September, it resumed the position it had held in January; but instead of resting there, it continued to fall, until at the close of the year the premium was only five per cent; and in July, 1816, it was nothing at all, or at most only about one per cent. The Bank circulation meanwhile expanded or contracted itself according to the demand, averaging rather more than £17,500,000, exclusive of the small notes.*

* Bank Circulation.

Date.	Total.	Notes of £5 and upwards.	Bank Treasure.	Price of Gold.
1809, 28 February	£ 18,542,860	£ 14,241,360	£ 4,488,700	115.5
31 August	19,574,180	14,393,110	3,652,480	115
1810, 28 February	21,019,600	15,159,180	3,501,410	115
31 August	24,793,990	17,570,780	3,191,850	115
1811, 28 February	23,360,220	16,246,130	3,350,940	118.75
31 August	23,286,850	15,692,490	3,243,300	125

The equilibrium was therefore restored, and it was restored without interference by government. The system vindicated itself, and is justly entitled to the high credit that properly belongs to so brilliant a success. But, unfortunately, this very success has given occasion for another hot dispute among currency writers, involving the whole question in its historical as well as in its theoretical bearings; and tedious as the subject may be, we are obliged again to turn aside, and to examine the opposing theories so obstinately and positively advanced.

It is almost needless to repeat that there were in 1816, and that there still are, two classes of political economists, so far as the currency is concerned. The one has found in bank paper and its over-issues an explanation for every rise or fall in prices, and for every financial disaster. The other has denied to such a medium of exchange any influence whatever upon prices, and insists that, if every bank-note were destroyed, speculation and abuses of credit would flourish not less than now. The bullionists of 1810 and their successors were strong in the belief that the Bank issues did control prices, and the price of gold especially. They were, therefore, obliged to explain how it happened that gold fell to par, or about forty per cent, while the Bank issues were actually increased. Obviously the dilemma was serious.

The bullionists, however, had a reply, and a very reasonable one; we quote it as given by Mr. McCulloch, whose opinion is always entitled to weight. Mr. McCulloch's theory is, that, although no contraction of Bank issues occurred which could explain the fall in gold, yet there was such a contraction in the entire circulation, taking the country banks into the calculation; and that the rise in value of Bank of England paper was in fact due to the destruction of country bank-

Date.	Total.	Notes of £5 and upwards.	Bank Treasure.	Price of Gold.
1812, 29 February	23,408,320	15,951,290	2,983,190	122
31 August	23,026,880	15,385,470	3,099,270	128.5
1813, 27 February	23,210,930	15,497,320	2,884,500	130
31 August	24,828,120	16,790,980	2,712,270	142
1814, 28 February	24,801,080	16,455,540	2,204,430	140
31 August	28,368,290	18,703,210	2,097,680	115.5
1815, 28 February	27,261,650	18,226,400	2,036,910	115
31 August	27,248,670	17,766,140	3,409,040	115

notes during the disastrous years of 1814, 1815, and 1816. And if the inquiry be carried a step further by seeking the cause of these disasters themselves, Mr. McCulloch explains that the fall of grain from 155 shillings the quarter, in 1812, to 67 shillings, in 1814, had spread universal ruin among the agricultural class.

We are far from affirming positively that so natural and so obvious an explanation as this is not the correct one; yet we are obliged to confess that the view taken by Mr. Tooke and Mr. Fullarton appears to our eyes more philosophical and more exact than that of Mr. McCulloch. They maintained that the fall in gold was due simply to the fact that, with the final turn of exchange in favor of England, gold ceased to be an object of demand, and, like other commodities in the same position, rapidly fell to its ordinary value.

Mr. McCulloch's facts are unquestioned, but they appear to be only a part of the truth. The prodigious decline in the price of grain was coincident with a very general decline in prices, which naturally checked importations and stimulated export. The grain alone which was imported in 1814 is estimated at £2,800,000 in value; in 1815 it was but £800,000, and in 1816 only £940,000. Silk and wool, coffee, flax, linseed, and most of the great staples of import, fell off in the same way between 1814 and 1816. Under any circumstances the exchanges must have risen without regard to the currency, and gold must have fallen, since considerable sums were actually brought from abroad during 1815 and 1816.

The force of this argument becomes evident by comparison with previous cases. If the rise in exchange and the appreciation of paper in 1815 and 1816 were caused by the withdrawal of private bank-notes, the same reason should hold good for the similar events in 1814. If at the later time the currency were so depreciated from excess as to regain its value only by contraction, it was certainly more in need of that relief at the earlier. Yet a fall of thirty per cent in gold was then coincident with an increase of paper throughout the country.

Allowing, however, that Mr. McCulloch is right, and that the restoration of paper was caused by involuntary contraction,

that contraction was at all events only temporary, and the re-establishment of the credit of the country banks of issue should have renewed the depreciation. The Bank issues rose in 1817 and 1818 to a higher point than ever before, and the country banks had again extended their credit in every direction. Under these circumstances, the depreciation should have been very great, even after every reasonable allowance had been made; yet in fact gold was at a premium of only about five per cent, and this slight advance appears to have been caused merely by a temporary pressure on the foreign exchanges which will presently be explained.

If these arguments seem still insufficient to show that the theory of excessive issues does not fully meet the difficulties of the case, we can only compare the circulation of 1814 and 1815, which is said to have lost twenty per cent or more of its value through its excess, with that which existed after specie payments were resumed. Such comparisons are not a fair proof of either excess or deficiency, since the public demand varies, and the same amount of circulation is at one time less and at another more than is required. Allowing for such variations, we may still venture to compare the three different periods of general expansion between 1813 and 1825. The small notes having been withdrawn at the resumption, and their place supplied by coin, it is necessary to exclude these in each case.

The highest point reached by the Bank circulation in any quarterly average between 1812 and 1815 was £19,067,000 in the third quarter of 1814; the price of gold being about 112. Between 1816 and 1822, the highest average was in the second quarter of 1817, or £21,517,000, and it remained above £20,000,000 until July, 1818, the country banks expanding generally. Gold was then at about 105. Between 1823 and the close of 1825, the highest average was in the first quarter of 1825, a time of universal expansion, when it reached £20,665,000, the Bank redeeming its notes in coin.

If, then, two thirds or three fourths of the whole depreciation was removed in 1814 without any withdrawal of paper; if the circulation was restored to its widest range in 1818 without any effect of consequence upon the price of gold; and if, after the resumption, the circulation remained undiminished in

amount, and its issue subject to the same general laws as before,—there seems to be no necessity for resorting to the theory of involuntary contraction in order to explain the fall of gold in 1816. There is no reason to dispute that theory, if it is understood to mean merely that this contraction was itself a part of a general movement of trade and credit, and as such that it contributed to hasten the result. But if more than this is intended, it appears to us that the effect produced was entirely out of proportion to the cause assigned.

The whole subject of private banking, for many years assigned as the source of all financial troubles, has in fact very little to do with the question of depreciation during the French wars. The country banks held then precisely the same position they had held before suspension, nor did the resumption change it. They never suspended payments. At any time gold might have been demanded for their notes. At all times they did in fact redeem their notes on demand, by exchanging them for those of the Bank of England. Their circulation, therefore, was limited by that of the Bank, and the same general laws controlled the whole.

Country bank paper could not have been in excess of the public wants then, any more than it could now, although the credit of such banks might be, and no doubt was, abused then, as it may now be. On the other hand, the Bank of England was not obliged to redeem its notes. There is no doubt that, through the channel of permanent loans to government, it might have forced any given amount of paper into circulation, had it chosen to do so. But it did not force a single note upon the public. It lent notes, but never paid them away. At the end of two months every such loan had to be paid back into the coffers of the Bank by the borrower; and although the advances to government were to some degree permanent, in the first place they were not excessive, and in the second place, as has been already shown, they tended directly to lower the private demand. Whatever action may have been caused by the Restriction was upon credit in the first place, and not upon currency. The encouragement it may have afforded to speculation could not, however, have been very great, or ten years would not have passed without showing it. But when taxes,

bad seasons, or the operations of war, or other causes, combined to raise prices and to stimulate speculation, the credit system was not then, nor is it now, adapted to check the rise. And when a stagnation in business and a fall in prices followed, as was sure ultimately to be the case, the circulation contracted as a necessary consequence. But in every instance, before the resumption and since, the rise in prices has preceded the expansion, and the fall has preceded the contraction.

In the early part of 1817 the supply of bullion in the Bank had risen to £10,000,000, the average total circulation for the quarter being somewhat in excess of £27,000,000, while the exchanges were considerably above par. The directors, therefore, considered it safe to try the experiment of partial resumption, and by a series of steps taken during this year they undertook to redeem all notes dated previous to the 1st of January. This was, in fact, resumption. During the next two years any holder of Bank notes could obtain gold for them at the Bank, either directly, or by exchanging them for such as were dated previous to the 1st of January, 1817. There is no reason to doubt that, had the exchanges remained firm, there would have been no further question as to an easy and regular return to the normal condition of the currency.

But, unfortunately, the year 1817 was one of renewed speculation, and the imports again rose to an extravagant point. Grain alone to the value of £17,300,000 was brought into England in the two years 1817 and 1818. Another cause which could not well have been foreseen tended powerfully to depress the exchanges and to carry gold abroad. Nearly all the governments of Europe were at this time borrowing large sums of money, and the English capitalists negotiated several of their largest loans. How much money was sent abroad for this purpose it is not easy to say, but certainly not less than £10,000,000. The effect upon exchange was immediate, yet the extreme variation in gold was not more than five per cent, although no effort of any kind was made to counteract the pressure. So far from resorting to the theory of excessive issues for an explanation of this temporary rise in gold, one may well feel surprise that, under the circumstances, there was not a much greater disturbance of the market. The return of peace

must have largely increased English resources, to enable them to bear so easily the pressure of enormous foreign payments.

But even the slight variation of five per cent which did exist was not of long duration. Again in 1819, as before in 1816 and in 1814, the system vindicated itself without artificial pressure, by the mechanical operation of its own laws. The excessive importations of 1817 and 1818 resulted in stagnation of business and decline in prices. The foreign loans were discharged. The exchanges, relieved from pressure, rose. The demand for gold ceased, and in July, 1819, the Bank note was again at par. There it remained thenceforward, and from that day to this there has been no depreciation in the value of Bank of England paper.*

In the mean while, however, Parliament had taken alarm. The Bank directors, after paying out £4,000,000 in redemption of their notes under the conditions specified in 1817, seeing no immediate prospect of a rise in exchange, and fearful of the entire exhaustion of their treasure, applied to Parliament early in 1819 to be relieved from the further performance of their own promises of redemption. Committees were appointed by both Houses, whose first act was to renew the Restriction in its whole extent. Then, with a view to the final establishment of a fixed government policy in regard to resumption, the two committees entered into a separate and most extended investi-

* Bank Circulation.

Date.	Total.	Notes of £5 and upwards.	Bank Treasure.	Price of Gold.
1816, 29 February	£ 27,013,620	£ 18,012,220	£ 4,640,880	105
31 August	26,758,720	17,661,510	7,562,780	101.5
1817, 28 February	27,397,900	19,261,630	9,680,970	100.8
30 August	29,543,780	21,550,630	11,668,260	103
1818, 28 February	27,770,970	20,370,290	10,055,460	104.5
31 August	26,202,150	18,676,220	6,363,160	104.5
1819, 27 February	25,126,700	17,772,470	4,184,620	104
31 August	25,252,690	18,017,450	3,595,360	100
1820, 29 February	23,484,110	16,794,980	4,911,050	100
31 August	24,299,340	17,600,730	8,211,080	100
1821, 28 February	23,884,920	17,447,360	11,869,900	100
31 August	20,295,300	17,747,070	11,233,590	100
1822, 28 February	18,665,350	17,290,500	11,057,150	100
31 August	17,464,790	16,609,460	10,097,960	100

Average Circulation of Bank Notes of £5 and upwards for the years

1823.	1824.	1825.
£ 18,033,635	£ 19,927,120	£ 19,679,120

gation of the whole subject, resulting in two reports made in the course of April and May, which, with the accompanying evidence, fill an enormous volume, and still furnish a mass of readable matter not less interesting than bulky. We are obliged to omit any detailed examination of these papers, and of the Parliamentary debates that followed them; but it is impossible to close this history without some slight analysis of the measures finally adopted.

Mr. Peel, afterwards the celebrated Prime Minister, was chairman of the House committee. Hitherto an opponent of the bullionists, his opinions were changed by the testimony offered before his committee, and he became a convert to the doctrines which Mr. Horner and his friends had so ably advocated in 1810. He carried almost his whole party with him. It was now generally acknowledged in Parliament that Bank paper was depreciated in regard to gold, and that a forcible contraction would restore the equilibrium. This principle, therefore, lay at the basis of his report.

The most serious resistance to resumption now came, however, from a new party, which made an alarming use of this doctrine of depreciation. It was affirmed, and probably with truth, that the trifling difference between paper and gold was no measure of the actual depreciation in paper as compared with commodities generally. The rise in prices during the war had been, it was argued, as much as fifty or one hundred per cent upon the old scale. A return to the original standard would be a flagrant injustice to the community. The fundholders alone would be benefited by it, and the people would be ground down by additional taxes solely in order to pamper the wealthy capitalist. If Parliament were determined to restore specie payments, it should at least create a new standard, and reduce the value of sterling money by twenty-five per cent; or it should accompany the resumption by allowing an equivalent deduction to every debtor on the amount of his debt. In other words, a general repudiation to the extent of twenty-five per cent was demanded by a party which contained some leading and influential members of Parliament not in any way inclined to act the part of demagogues.

The House of Commons was, however, faithful to one main

principle, in which it justly considered the national honor to be involved. The Restriction had been a war measure merely. Since peace had been restored, Parliament, while consenting to renew the law from year to year, had repeatedly pledged itself to ultimate resumption. Every government loan had been raised on the faith of these pledges ; the interest of the national debt had been paid in paper, on the ground of its equivalence to gold; every public or private debt since 1797 had been contracted under the influence of acts of Parliament prescribing the time of resumption; every Bank note bore a promise to pay upon its face. Four years had already been allowed to pass, and nothing had yet been done. It was felt that any further concession either to public timidity or to class interests would endanger the national credit, if indeed it did not proclaim a criminal dishonesty in those to whom the duties of legislation were intrusted.

All resistance, therefore, to the principle of resumption in its purest and simplest form was summarily swept aside. Yet it is curious to observe with what excessive caution Mr. Peel proceeded, and how clumsy and ponderous an engine he thought it necessary to invent in order to bring about a very simple result. At the time when his committee was sitting, there was a premium of about five per cent upon gold, and his object was to restore fully the equilibrium between paper and coin in the first place, and in the second to create a system under which it should be impossible for paper to fall again below par. The latter purpose could, as he believed, be effected by establishing the principle that the circulation should be forcibly contracted as the exchanges became unfavorable, or, in other words, that the Bank should diminish its issues whenever its treasure was diminished. But as the Bank directors were obstinate in denying the efficacy of this contrivance, Mr. Peel undertook to frame his bill in such a manner as to leave them no option but to follow out his theory.

The project, therefore, began by an order for the repayment by the government of ten millions out of the twenty-three millions advanced to it by the Bank. This repayment was not made, however, for the purpose of necessarily contracting the Bank loans or issues, but because the Bank could more easily

control its circulation when made in short private loans, than when made in more permanent advances to government, and would, therefore, be more able to act energetically should a fall in the exchanges threaten the success of the plan.

Having thus removed one possible impediment, Mr. Peel's next step was to move the following resolution: "That from the 1st of February, 1820, the Bank shall be liable to deliver on demand gold of standard fineness, having been assayed and stamped at his Majesty's mint, a quantity of not less than sixty ounces being required in exchange for such an amount of notes by the Bank as shall be equal to the value of the gold so required, at the rate of £4 1*s*. per ounce"; that is to say, any person presenting Bank notes to the amount of £243 at the Bank counter should receive in return a bar of gold worth £233. After the 1st of October he was to pay only £238 for the same quantity of gold, and after the 1st of May, 1821, the ingot of sixty ounces was to be purchasable at its par value in notes. After this experiment had been fully tried during a space of two years, the Bank was, on the 1st of May, 1823, to commence the redemption of its notes in coin.

Such was the famous bill of Mr. Peel, which excited the warmest controversies during a whole generation. So far as its ultimate purpose of effecting an unconditional return to specie payments is concerned, it deserves all praise; but we cannot think that the merits of Mr. Peel's bill, as a practical measure, were very great, or that, apart from its general tendency, it either did or could exercise any great influence on the result. A simple resolution requiring the Bank to resume on a certain day would have answered the purpose better.

In the first place, the elaborate mechanism by which the price of gold was to be forced down was based upon an official acknowledgment of depreciation, the Bank note being made the legal equivalent of a smaller sum in gold than that named upon its face. It is true that no actual coin was to pass, but the gold ingots were as much coin as if they had been guineas. To reverse the whole policy of the war, and at this late moment to proclaim that the government had for years steadily cheated its creditors by paying them in depreciated paper, was unnecessary, and, as we believe, wrong in principle.

In the second place, the radical difficulty with Peel's bill was, that if its provisions had been tested,—had the event occurred which they were designed to provide for,—they would probably have proved useless. We have no space to enter on the wide controversy still raging in England on this point as connected with Sir Robert Peel's Bank Charter Act of 1844; but there are few admirers of that act who can deny that the theory of regulating the currency by the movements of exchange does not and cannot exclude very violent fluctuations in credit,—in fact, that it for the time aggravates them. Had the exchanges, therefore, become unfavorable in 1820, as they did in 1825, no amount of contraction could have saved the specie of the Bank. If, therefore, in the face of such a drain, the Bank had undertaken to increase it by selling gold two per cent cheaper than before, as Peel's act required, there is every reason to believe that it would have again broken down.

As Mr. Ricardo pointed out to Parliament, its duty was to establish the principle, but it was for the Bank to carry that principle out in action. Mr. Peel's act was not merely for the resumption of specie payments; it was also one for the regulation of commerce and credit; it undertook to control both the currency and the exchanges. Such efforts have hitherto always failed, and we can see no reason for supposing that this one would have been more successful than the rest. The really valuable part of the bill was that which fixed a day for the resumption, and that which repealed the penal statutes against melting or exporting coin. Had all the rest been omitted, the measure would have been greatly improved.

Whatever may have been the theoretical merits or demerits of the scheme, in actual practice it was wholly inoperative. Within a few months of its adoption, and without any operation upon the currency, gold again fell to par, and there it has since remained. The Bank prepared its bars of bullion, but no one would have them. On the contrary, large amounts of gold were brought into its vaults. Weary of prolonging an obviously useless delay, the directors applied to Parliament early in 1821, and procured the passage of a new act, under which cash payments were at length entirely resumed on the 1st of May of that year. The public was unconscious of the event. The

Bank system was not altered, nor was the circulation diminished, except so far as sovereigns were substituted for notes of one and two pounds; and after twenty-four years of an irredeemable paper currency, Great Britain returned smoothly and easily to its ancient standard, and redeemed its pledged honor.

There was, however, between the years 1818 and 1822 a general and severe fall in prices, which was then, and is still, commonly referred to the action of Mr. Peel's bill. There may be a certain degree of truth in this theory, since the certainty of resumption would very possibly inspire for the time a salutary cautiousness in the extension of general credit. But in truth there were other causes which tended much more strongly to produce the same result. The agricultural class, which uttered the loudest complaints, had, under the influence of an excessive stimulus, brought more land under cultivation than was required by the public wants, and a long time passed before a proper equilibrium was again established. The shipping interest was in much the same condition. But the population at large did not suffer. On the contrary, it does not admit of doubt that the condition of the mass of Englishmen steadily improved after 1817. At the very time when prices were falling, the manufacturing interests were rapidly extending and enriching themselves; we hear less and less of political discontent and internal disorder, as reviving prosperity brought with it social repose, while even among the bankers and traders there were far fewer bankruptcies during the three years ending in 1821 than in any similar period since 1809. If the resumption was to be held responsible for the misfortunes of certain branches of industry, common justice requires that the general prosperity of others should outweigh the complaint; but if the views which we have taken are correct, both complaint and praise were equally thrown away, and the system after resumption was identical with that which had existed before. The only effect of the long suspension was to breed a race of economists who attributed an entirely undue degree of power to mere currency, and who for years to come delayed a larger and more philosophical study of the subject, by their futile experiments upon paper money.

We will not undertake to apply England's experience to other cases of depreciation, though no richer field could be wished. But we reiterate, in concluding this review, that a wide distinction must be drawn between inconvertible bank-notes, issued on good security merely as loans, payable within a short definite period, and inconvertible government paper, issued like so much gold or silver, yet not capable of being melted like the precious metals into an article of commerce, nor of being returned to the issuer and not again borrowed, like bank-notes. In one case the public regulates the supply by its own wants; in the other, it is compelled to regulate prices by the supply. No country laboring under the latter difficulty can draw consolation from England's example. But if, in addition to the £60,000,000 which we will suppose to have circulated in British paper during the last ten years of Restriction, there had been another £60,000,000 of government currency forced upon the public, and if the private banks of issue had been under a less rigorous central control, in this case there might indeed be some parallel between the difficulties of resumption in 1821 and those under which other nations have been weighed down. But in this case, too, we may freely venture to disbelieve that the return to cash payments on the old system would have been so easily brought about; and if England had, after all, succeeded in ultimately restoring her credit, if she had redeemed her pledges and vindicated her honor, she would have accomplished more than any nation has yet done, although many have been placed in a similar situation.

ART. IV. — *Letters and Remains of* ARTHUR HUGH CLOUGH, *sometime Fellow of Oriel College, Oxford.* For Private Circulation only. London. 1865. Crown 8vo. pp. 328.*

THE brief memoirs of Mr. Clough prefixed to the English and the American editions of his Poems were but incomplete

* The use made of this volume in the following article is by permission of its editor.